



INTERNAL AUDIT PERFORMANCE AUDIT CONTRACT ADMINISTRATION

March 6, 2006

Roanoke City Council Audit Committee
Roanoke, Virginia

We have completed our audit of the contract administration processes followed in various city departments. Our audit was performed in accordance with generally accepted government auditing standards.

BACKGROUND

The City of Roanoke utilizes independent contractors for a variety of services including maintenance of elevators and HVAC systems, cleaning, mowing, EMS billing, courier services, and others. Using contracted services allows the City to obtain specialized expertise economically, as well as services limited in scope or needed only on a spot basis that cannot be efficiently executed with full time staff. Contracts are typically procured through the Purchasing division using detailed bid specifications and a sealed bidding process. These contracts are typically in writing and include the City's standard terms and conditions.

The Purchasing division maintains a central database of contracts, leases, and non-monetary agreements that provides a central repository for all contracts. The database was created in 2002 and should contain all currently active contracts. It is accessible to all city employees via the Lotus Notes system on the City's internal network. Employees can see all contracts administered by their individual departments or they can change the view to see all city contracts awarded to a given vendor. The system allows the employee to view an image of the signed contract, schedules, insurance certificates, and other associated documents.

Contract administration is covered in section 10 of the City's procurement manual. The procurement manual can be accessed by City employees through the Lotus Notes system. The manual emphasizes that the integrity of the public bidding process is dependent on ensuring goods and services provided by vendors meet specifications, terms and conditions as established in the contracts awarded. The manual states that planning and proactive management of contracts is crucial to effective contract administration. As part of the planning process, a contract administrator is designated by the Purchasing division. The contract administrator should extract specific requirements, scheduled delivery dates, start-up and completion dates, and other performance guarantees directly out of the contract into a checklist or milestone chart to be used in monitoring contract performance. The procurement manual includes a process that the contract administrator should follow in addressing vendor non-

conformance. All complaints are supposed to be documented by the contract administrator and responded to by the vendor on a "Complaint to Vendor" form. If properly used, this form ensures performance problems are communicated to the vendor and that an accurate history of performance is on file. The contract administrator should maintain a contract file that includes the contract, the checklists or charts, the service records, the complaint to vendor forms, and any other correspondence.

The maintenance of city records is also regulated by the Library of Virginia in accordance with State law. The Library of Virginia, in General Schedule 16, requires localities to retain maintenance and service records for installed equipment until the equipment is taken out of service and either sold or scrapped.

SCOPE

The scope of this audit included active contracts listed on the City's contract database between June 1, 2005, and December 31, 2005. We excluded contracts managed for street paving as those contracts are scheduled to be evaluated in a separate audit. We excluded contracts managed by Engineering since those contracts typically involve construction services that require more specialized audit steps and consume more time than was allocated for this audit. We also excluded software licensing and support agreements administered by the Department of Technology as those contracts are sole source and essentially relate to intangible services.

OBJECTIVES

The objective of this audit was to determine if contracted services were provided in accordance with terms and conditions contained in the contracts.

METHODOLOGY

Initially, we scanned all contracts listed in the City's contract database and selected those that contained specifications which readily lend themselves to verification. We then selected specific performance guarantees and attempted to verify performance through supporting documentation from the vendors or through observation by the audit staff.

In those cases involving cleaning services, we used observation to verify performance. We timed our visits to correspond closely with the times and dates those facilities were supposed to be serviced. In some cases, we inspected sites multiple times to ensure findings were not anomalies and truly represented the typical condition.

We also used observation to evaluate performance related to lawn care services. Our inspections included checking the height of grass and weeds, as well as the overgrowth onto curbs and sidewalks.

Contracts for maintaining elevators, escalators, and components of heating, ventilation, and air conditioning equipment were evaluated based on service records from the vendors. We reviewed contract files maintained by those city employees responsible for administering the contracts. In those cases when service reports were not on file, we asked the contract administrators to contact the vendors and obtain the necessary documents.

RESULTS

We examined, in detail, nine (9) contracts with annual expenditures totaling \$256,907. The contracts primarily involved services related to maintenance of equipment, grounds maintenance, and janitorial functions.

Through observation, we determined that mowing and edging along Peters Creek Road, from the City limits to Brandon Avenue; on Melrose between Peters Creek Road and the Salem City line; and on Hershberger between Cove Road and Williamson Road had been performed substantially in accordance with the terms of the contracts involved. Based on interviews with the employees responsible for administering these contracts, we concluded that vendor performance was being appropriately monitored.

We also reviewed service reports for the chillers and water pumps in the jail annex, as well as those for the York chiller in the Municipal Building. Based on the service reports on file, we conclude that the frequency with which routine maintenance services were provided was in accordance with the terms of the contract. We did not perform audit tests necessary to determine if the maintenance performed during these service calls fulfilled all of the specifications set out in the contract due to the technical nature of some specifications and time constraints.

Over the course of the audit, we identified issues related to contract administration as noted in the following findings. We also communicated other, less significant issues to management during our closing conferences.

Finding 01 – Parking Garage Elevator Maintenance

The City has contracted with a vendor to regularly maintain and inspect elevators in the following city garages: Market Square, Church Avenue, Wachovia Tower, Century Station, Williamson Road, and Gainsboro. The contract calls for monthly preventative maintenance to be performed in accordance with recognized servicing schedules for hydraulic and traction elevators. Upon reviewing the contract file for the period covering January 2005 through July 2005, we determined that monthly maintenance service reports were not on file for the Tower garage for February and April; and were

not on file for the Williamson Road garage for April and June. The Parking Garage Manager's checklist of required services on which he enters the date when services are rendered reflected that the majority of the work was being performed; however, it did not indicate that services were received during the months in question.

Action Plan 01 – Parking Garage Elevator Maintenance

The new elevator maintenance contract that took effect on January 1, 2006, included a new requirement for the vendor to provide a listing of the dates on which the vendor has scheduled preventative maintenance to be performed at the City's garages in calendar year 2006. The new contract also specifies that the vendor must document all completed work and deliver a copy of the documentation to the Parking Garage office by the fifth (5th) of each month.

Finding 02 – Library Custodial / Janitorial Services

The custodial/janitorial services contract provides for cleaning the Main Library and the following branch libraries: Gainsboro, Jackson Park, Melrose, Raleigh Court, and Williamson Road. The Main Library is to be cleaned five days per week [Monday through Friday], and the branch libraries are to be cleaned Monday, Wednesday, and Friday each week. The contract provides detailed specifications for nightly, bi-weekly, quarterly, semi-annual, and annual cleaning. This includes washing Venetian blinds, cleaning windows inside and outside, washing and sanitizing bathroom walls, dusting all surfaces, cleaning light fixtures, cleaning carpets, etc.

Using the specifications for contract cleaning that were incorporated in the contract by reference, we physically inspected two locations: the Main Library and the Williamson Road Branch Library. Based on our observations and inquiries with employees at those locations, we concluded that many of the required services were not being performed. Nightly duties such as dusting, vacuuming, mopping, replacing burned out light bulbs, and restocking of towels were not consistently performed. Regular services such as washing blinds, sanitizing bathroom walls, spot cleaning carpets, and cleaning windows were not performed.

The contract administration policies in the City's procurement manual suggest that the contract administrator should work with the end users, in this case the library staff, to monitor contract performance. The manual provides forms for end users to formally evaluate vendors and a formal complaint form to be filed with the vendor when performance problems are noted. Based on our interviews and our review of the files available, we concluded the following:

- The Building Maintenance department was the designated contract administrator for the Custodial / Janitorial contract.
- Branch managers were designated by the Library administration to monitor vendor

performance.

- Branch managers were not provided a detailed list of cleaning and janitorial services required to be performed by the vendor.
- Vendor Performance Evaluation forms were never provided to library staff.
- "Complaint to Vendor" forms were never completed to document the vendor's performance problems.
- Building Maintenance held three meetings with the vendor's Vice President to discuss deficiencies to no effect.
- The vendor has continued to receive monthly payments of \$4,574 as established by the contract.

By not following a formal process of performance monitoring and complaint reporting, the City has received services that are substantially less than contracted for and without receiving any allowances in price. The libraries have been dirtier and less sanitary than was intended based on the service levels set in the City's contract. Vendors who bid for the contract based on providing the service levels required in the invitation to bid were in essence competing against a vendor estimating its costs and profits based on a lower standard of service.

Action Plan 02 – Library Custodial / Janitorial Services

The vendor's contract was allowed to expire in February 2006 and the service has been re-bid. Building Maintenance will establish a contract file for the new custodial contract. A contact will be established at each library and the detailed cleaning specifications will be provided to each contact. Performance issues will be documented on the "Complaint to Vendor" form as they occur, and the vendor will be required to formally respond within the timelines established in the City's Contract Administration policy. Contactor Performance Evaluations will be provided to each library at least once each year and at least two months prior to the deadline for renewing the custodial / janitorial contract.

Management Response 02 – Library Custodial / Janitorial Services

The vendor contract was allowed to expire, and the incumbent agreed to extend the service on a temporary basis to allow time for the bidding process. The Invitation to Bid is scheduled to open March 8, 2006. The Purchasing division will ensure that staff members responsible for contract administration are aware of requirements specified in the City's Procurement Manual. A Designation and Responsibilities of Contract Administration Form will be returned to the department with the fully executed contract. The form lists the responsibilities of the User Department Contract Administrator as it relates to delivery and/or service. It also asks for information from the User Department on performance and/or contract issues to be shared with Purchasing.

Facilities Management staff will ensure that contracts are dealt with according to the methods specified in the Procurement Manual.

Finding 03 – Market Square Walkway Custodial / Janitorial Services

The contract for the market square walkway costs \$2,695 per month and requires the vendor to provide routine cleaning and maintenance services on a daily basis, seven days per week. The specifications incorporated in the contract require regular trash removal, dusting [including braces and supports], glass cleaning, mopping, ceiling cleaning [including cobwebs], cleaning mats, power washing brick entrances, and light bulb replacement.

We inspected the walkway on three occasions, each a week apart and observed significant accumulations of dirt in corners, cobwebs in high spots, dust on railings and supports, interior glass with numerous streaks and smudges, significant grime buildup on door frames, and light tubes that were burned out.

Based on our discussions with Building Maintenance, it appears that contract administration procedures suggested in the City's procurement manual were not being followed:

- A checklist was not developed to use in monitoring performance.
- Periodic inspections provided for in the contract were not documented, but were performed per statements from the contract administrator.
- Joint inspections with the vendor were not regularly scheduled and were not documented.
- Performance issues were not documented on complaint forms.

As a result, the vendor has not been evaluated based on the specifications set out in the contract and has no formal complaints documented against it. The cleaning services provided have been substantially below the quality specified in the contract. The environment in the walkway does not promote the image to citizens and visitors that the City intended when it developed the service level requirements for cleaning in the walkway. Vendors who bid for the contract based on providing the service levels required in the invitation to bid were in essence competing against a vendor estimating its costs and profits based on a lower standard of service.

Action Plan 03 – Market Square Walkway Custodial / Janitorial Services

Building Maintenance plans to develop a checklist from the contract specifications on which the department will document weekly inspections of the walkway. Deficiencies will be documented on "Complaint to Vendor" forms and filed with the vendor for

response. A contract file that includes weekly inspections and complaint forms will be maintained.

Management Response 03 – Market Square Walkway Custodial / Janitorial

In the future, the Purchasing division will ensure that staff responsible for contract administration is aware of requirements specified in the City's Procurement Manual.

Facilities Management staff will ensure that contracts are dealt with according to the methods specified in the Procurement Manual.

Finding 04 – Park Restroom Cleaning

The contract for the Parks Restrooms Cleaning Agreement covers the cleaning services for restrooms located at 25 parks. The contract specifies cleaning that is to be performed daily, weekly, monthly, and annually. Specifications include cleaning and sanitizing interior glass, mirrors, and fixtures; removing trash; refilling soap, tissue paper, and towel dispensers; sweeping and mopping floors; cleaning ceilings and sky lights. The restrooms are to be cleaned April through October, from three (3) to seven (7) days each week depending on the location.

We selected the following parks for inspection during the audit: Garden City, Highland, Lakewood, and Fallon. We inspected each facility three times to ensure results were typical. The facilities were inspected the morning after a scheduled cleaning.

- We observed that the facilities at Garden City Park were clean and all consumable supplies were stocked.
- Facilities at Fallon Park had dirty sinks, fixtures, and mirrors, and did not have tissue paper on two of three visits.
- Highland Park facilities consistently had dirty floors and fixtures, and did not have tissue paper.
- Lakewood Park facilities consistently had dirty floors, sinks, and mirrors, and did not have paper towels.

The results of our inspections indicate that park restrooms are not cleaned and maintained at the level established in the contract. The restrooms are less sanitary than expected and do not consistently have the necessary supplies to make them functional. Again, those vendors who submitted higher bids for the cleaning service may have reduced their bid price if they had assumed lower service levels would be accepted by the City.

Action Plan 04 – Park Restroom Cleaning

The vendor was notified about the restroom deficiencies and immediately dispatched crews to complete not only the deficiencies noted by the auditors, but to make sure all other restrooms were cleaned to the standards outlined within the contract. Parks employees were instructed to visually check and document restroom cleanliness during their park cleaning rounds. This daily inspection was added to work order / inspection reports filed by staff. Other than restroom buildings located at Mill Mountain's Discovery Center and one bathroom building at Carvin's Cove, all bathrooms were closed during November 2005 for the winter and will not re-open until March 2006. Prior to re-opening, the vendor will pressure wash all facilities and perform a full cleaning. Bathrooms will be inspected and cleaning signed off and approved by Parks staff prior to opening. The vendor will be reminded as to the contract specifications for the coming season in a meeting scheduled by the Parks Superintendent to be held prior to March 1, 2006. For the 2006 season, Parks and Recreation staff will continue to spot inspect and report any deficiencies to their supervisors. The supervisors will document deficiencies on a "Complaint to Vendor" form that will be filed with the vendor. The Parks and Recreation department will work with the City's Purchasing division to address performance issues that are not satisfactorily rectified by the vendor.

Finding 05 – Market Square Walkway Extended Warranty - Escalators and Elevator

The extended warranty contract provides for routine maintenance and inspections of four escalators and the elevator located in the Market Square Walkway. The contract is the vendor's standard warranty agreement. It provides that the vendor will "regularly" examine, clean, lubricate, adjust and where conditions warrant, repair or replace broken or malfunctioning components, including all labor and materials to keep the equipment running to original specifications. The frequency of inspections and routine maintenance is not specifically stated. The contract provides for an average operational level [i.e., the percentage of time the equipment is available for use and not out of service due to malfunction]. However, this percentage was left blank in the signed contract. The warranty costs the City \$1,763 per month or \$21,156 per year in fiscal 2005.

Based on our discussions with the contract administrator, we determined that the vendor's service reports were not on file in the City. The contract administrator contacted the vendor and requested a copy of the service tickets. The service tickets provide very limited information related to the work performed. Given the absence of any definition for "regular" inspections in the contract and the limited information available on the service tickets, we were unable to make any conclusions about compliance. The service dates reviewed indicated that the vendor inspected the equipment in most months, with inspections only a few days apart in some cases.

Based on our observations during our audit test work, we became concerned about the

absence of any type of contract or equipment file for the escalators and elevator. The Library of Virginia, General Schedule 16, section B, "Building Maintenance / Management and Grounds Keeping Records," requires that documents related to the installation, maintenance, service, and history of building-installed equipment be retained by localities until removal and disposal of the equipment. General Schedule 16 also requires that elevator inspection records be retained for three years after the last inspection. As noted earlier, there were no service reports on file documenting elevator and escalator inspections or maintenance history. A complete record of an assets maintenance and repair history is necessary for making informed, intelligent decisions about asset maintenance and replacement. There were no records related to the original installation of the equipment or the original costs of the equipment. Upon researching the capital assets records, the Department of Finance found that the escalators and elevator were not separately capitalized; and, in fact, only the City's portion of the expenditures for the construction of the Market Square Walkway had been capitalized. The City's expenses totaled \$862,218 and the total expenses for the walkway are believed to have been approximately \$6.9 million. The Virginia Department of Transportation (VDOT) funded the majority of the project costs. Donated assets should be recorded at fair value on the date of the donation; therefore, the City should record as an asset the portion of the walkway paid by VDOT and gifted to the City.

Action Plan 05 – Market Square Walkway Extended Warranty - Escalators and Elevator

Building Maintenance: Contract files will be created and maintained as described in section 10 of the City's procurement manual. This will include developing a checklist for monitoring vendor performance and retaining copies of the service reports. A new asset management system is being installed in the City in phases, with Building Maintenance targeted for the next installation. Once implemented, this system will capture all maintenance and repair history for significant equipment such as the escalators and elevator in the walkway.

Finance: An accountant is currently working with VDOT to document the total costs to be capitalized for the Market Square Walkway. The walkway will be capitalized in the City's accounting records and entered into the fixed asset system as soon as this research is completed.

Management Response 05 – Market Square Walkway Extended Warranty – Escalators and Elevator

The extended warranty has been changed to address the installation of new equipment. Terms and Conditions were added to protect the interest of the City.

Facilities Management staff will ensure that contracts are dealt with according to the methods specified in the Procurement Manual.

CONCLUSION

Based on the results of our audit work, we have identified a number of vendors who have not performed in accordance with the terms and conditions contained in their contracts. Our work also indicates that departments and divisions of the City are not aware of the contract administration procedures recommended by the Purchasing division and, as a result, may not be adequately monitoring vendor performance.

We would like to thank the management and staff in the departments and divisions reviewed for their assistance and cooperation in conducting this audit.

Management Response to Conclusion

The database created by Purchasing in 2002 does not contain all currently active contracts for the City. We are still in the process of collecting data from the end users. It is 80 percent complete to date.

Contract Administration is covered in section 10 of the Procurement Manual and the Purchasing division conducts training of user departments on a yearly basis. As part of the planning process, the contract administrator is not designated by Purchasing, but assigned by the user department and given to Purchasing. The user department contract administrator should maintain a file with copies of the contract, the checklist or charts, the service records, the complaint to vendor forms, and any other correspondence. All originals should be forwarded to Purchasing.

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